

**REPORT OF THE AUDIT OF THE
GREENUP COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Robert W. Carpenter, Greenup County Judge/Executive
Honorable Keith Cooper, Greenup County Sheriff
Members of the Greenup County Fiscal Court

The enclosed report prepared by Morgan & Franklin, LLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Greenup County, Kentucky, for the year ended December 31, 2002.

We engaged Morgan & Franklin, LLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Morgan & Franklin, LLC, evaluated the Greenup County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GREENUP COUNTY SHERIFF

For The Year Ended
December 31, 2002

Morgan-Franklin, LLC, has completed the Greenup County Sheriff's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$2,294 from the prior calendar year, resulting in excess fees of \$2,647 as of December 31, 2002. Revenues increased by \$32,036 from the prior year and disbursements increased by \$29,742.

Report Comments:

- Lacks Adequate Segregation Of Duties
- The Sheriff Should Prepare Accurate Financial Reports And Keep Accurate Financial Records
- The Sheriff Should Not Be Paid More Than The Statutory Maximum
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Sheriff Should Present A Settlement To The Fiscal Court In A Timely Manner

Deposits:

The Sheriff's deposits were not insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES.....	3
NOTES TO FINANCIAL STATEMENT	6
COMMENTS AND RECOMMENDATIONS	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	17

***Morgan-Franklin, LLC
Certified Public Accountants
PO Box 428
513 Main Street
West Liberty, Kentucky 41472***

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Robert W. Carpenter, Greenup County Judge/Executive
Honorable Keith Cooper, Greenup County Sheriff
Members of the Greenup County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Greenup County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Robert W. Carpenter, Greenup County Judge/Executive
Honorable Keith Cooper, Greenup County Sheriff
Members of the Greenup County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- Lacks Adequate Segregation Of Duties
- The County Sheriff Should Prepare Accurate Financial Reports And Keep Accurate Financial Records
- The Sheriff Should Not Be Paid More Than The Statutory Maximum
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Sheriff Should Present A Settlement To The Fiscal Court In A Timely Manner

Respectfully submitted,

Morgan - Frankli, LLC
Morgan-Franklin, LLC

Audit fieldwork completed –
September 17, 2003

GREENUP COUNTY
KEITH COOPER, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

Federal Grants		\$	27,000
State - Kentucky Law Enforcement Foundation Program Fund			36,273
State Fees For Services:			
Finance and Administration Cabinet		\$	80,776
Circuit Court Clerk:			
Sheriff Security Service	\$	20,967	
Court Ordered Payments		<u>9,340</u>	30,307
County Clerk - Delinquent Taxes			5,897
Commission On Taxes Collected			377,462
Sheriff's Fees On Taxes Collected:			
10% Additional Fee			66,316
Advertising Fee			1,285
Fees Collected For Services:			
Auto Inspections	\$	17,310	
Accident and Police Reports		1,236	
Serving Papers		20,245	
Carrying Concealed Deadly Weapon Permits		<u>9,045</u>	47,836
Other:			
Postage-Reimbursements			6,411
Miscellaneous			3,077
Interest Earned			5,919
Borrowed Money:			
State Advancement	\$	246,384	
Bank Note		<u>100,000</u>	<u>346,384</u>
Total Receipts			<u>\$ 1,034,943</u>

The accompanying notes are an integral part of this financial statement.

GREENUP COUNTY
 KEITH COOPER, COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	347,874	
Part Time Gross Salaries		22,103	
Other Salaries		31,175	
Contract Labor		6,536	\$ 407,688

Employee Benefits-

Employer's Share Social Security	\$	40,638	
Employer Paid Health Insurance		18,516	59,154

Contracted Services-

Advertising	\$	150	
Professional Fees		23,878	24,028

Materials and Supplies-

Office Materials and Supplies	\$	7,413	
Uniforms		1,161	8,574

Auto Expense-

Gasoline	\$	19,639	
Maintenance and Repairs		11,965	31,604

Other Charges-

Conventions and Travel	\$	10,448	
Postage		8,275	
Bond		5,375	
Carrying Concealed Deadly Weapon Permits		6,195	
Miscellaneous		5,059	
Computer Services		4,500	
County Collections		7,950	
Drug Enforcement		750	
Telephone		9,812	
Training		3,734	
Bank Charges		282	62,380

Capital Outlay:

Vehicles - KACO			17,340
-----------------	--	--	--------

The accompanying notes are an integral part of this financial statement.

GREENUP COUNTY
 KIETH COOPER, COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Debt Service:

State Advancement	\$ 246,384	
Notes	100,000	
Interest	<u>1,026</u>	\$ 347,410
Total Disbursements		<u>\$ 958,178</u>
Net Receipts		\$ 76,765
Less: Statutory Maximum		<u>71,153</u>
Excess Fees		\$ 5,612
Less: Training Incentive Benefit		<u>2,965</u>
Excess Fees Due County for 2002		\$ 2,647
Payments to County Treasurer - April 7, 2003		<u>165</u>
Balance Due at Completion of Audit		<u><u>\$ 2,482</u></u>

The accompanying notes are an integral part of this financial statement.

GREENUP COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year.

GREENUP COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2002
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 8, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$5,342,124 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 8, 2002.

	<u>Bank Balance</u>
FDIC insurance	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	2,350,000
Uncollateralized and uninsured	<u>5,342,124</u>
Total	<u>\$ 7,792,124</u>

Although there was a written security agreement at December 31, 2002, the County Sheriff did not enter into this agreement until September 26, 2002.

GREENUP COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2002
(Continued)

Note 4. Note Payable

The Office of the County Sheriff borrowed \$100,000 from the Kentucky Bank and Trust, 900 Diederich Boulevard, Russell Kentucky 41169. These monies were repaid during the year and therefore the balance at December 31, 2002 was \$0. These monies were used for operation expenses of the Sheriff's Office.

Note 5. COPS Grant

The Greenup County Sheriff's Department was the recipient of \$27,000 from a COPS In School Award from the United States Department of Justice. This money was received and dispersed in calendar year 2002. The grant was used to hire deputies for the local school system.

Note 6. Vehicles - KACO

The Greenup County Fiscal Court is committed to a lease agreement with the Kentucky Association Of Counties (KACO) for a 2001 Ford Expedition and a 2001 Ford Crown Victoria used by the Sheriff's department. The Sheriff makes payments on this lease directly to KACO. The total balance of the agreement is \$34,501 as of December 31, 2002.

COMMENTS AND RECOMMENDATIONS

GREENUP COUNTY
KEITH COOPER, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

The Sheriff Should Prepare Accurate Financial Reports And Keep Accurate Financial Records

Our audit disclosed the following:

- The Sheriff's financial reports to the Department of Local Government were not amended when information that was unknown at the time the reports were issued became known.
- Actual dates that expenditures and receipts were received or incurred were altered in the computer system (Quickbooks).
- Receipts and disbursements recaps did not coincide with the fourth quarter financial statements and were not mathematically correct.

We recommend the following:

- The Sheriff should amend his financial reports when information that was unknown at the time the report was issued becomes known.
- Actual dates that expenditures and receipts are received or incurred should not be altered in the computer system.
- Receipts and disbursements recaps should tie to financial statements and be mathematically correct.

County Sheriff's Response:

O.K.

The Sheriff Should Not Be Paid More Than The Statutory Maximum

Pursuant to KRS 64.5275 – Maximum salary schedule for sheriffs, the Department of Local Government will set the maximum salary limitations for County Sheriffs. The Greenup County Sheriff was to be paid no more than \$71,153 according to this schedule. However, the Sheriff was paid \$71,195. Therefore, the Sheriff appears to have been overpaid \$42.

We recommend that the Sheriff comply with KRS 64.5275.

County Sheriff's Response:

O.K.

GREENUP COUNTY
KEITH COOPER, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On November 8, 2002, \$5,342,124 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times.

We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Sheriff's Response:

O.K. - Attempted to rectify with bank – will check further in future.

The County Sheriff Should Present A Settlement To The Fiscal Court In A Timely Manner

The County Sheriff did not present to the fiscal court an annual settlement as required by KRS 134.310(1).

We recommend that the Sheriff comply with KRS 134.310(1).

County Sheriff's Response:

Presented in past – will have court officially approve in minutes.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information.

We recommend the Sheriff obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash recounted and deposited by the Sheriff
- Reconciliation of reports to source documents and receipts and disbursements ledgers by the Sheriff
- All disbursement checks are to be signed by two people and one must be the Sheriff
- The Sheriff examines payroll checks prepared by an employee and distributes checks to employees
- All disbursements checks prepared by an employee are examined by the Sheriff for proper documentation

GREENUP COUNTY
KEITH COOPER, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS: (Continued)

Lacks Adequate Segregation Of Duties (Continued)

- The Sheriff mails disbursements
- The Sheriff or someone independent of the Sheriff's Office prepares bank reconciliations

County Sheriff's Response:

Not enough staff – will attempt to do better.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

***Morgan-Franklin, LLC
Certified Public Accountants
PO Box 428
513 Main Street
West Liberty, Kentucky 41472***

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Robert W. Carpenter, Greenup County Judge/Executive

Honorable Keith Cooper, Greenup County Sheriff

Members of the Greenup County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Greenup County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated September 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Greenup County Sheriff's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Prepare Accurate Financial Reports And Keep Accurate Financial Records
- The Sheriff Should Not Be Paid More Than The Statutory Maximum
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Sheriff Should Present A Settlement To The Fiscal Court In A Timely Manner

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Greenup County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

Morgan - Frankli, LLC

Morgan-Franklin, LLC

Audit fieldwork completed -
September 17, 2003

